

**SUMMIT ACADEMY, INCORPORATED**

**FINANCIAL STATEMENTS  
AND REPORTS IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133**

**Year Ended June 30, 2005**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Summit Academy, Incorporated

We have audited the statement of financial position of Summit Academy, Incorporated (a nonprofit organization) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Summit Academy, Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Academy, Incorporated as of June 30, 2005 and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2005, on our consideration of Summit Academy, Incorporated's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of Summit Academy, Incorporated taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Squire & Company, PC*

July 12, 2005

**SUMMIT ACADEMY, INCORPORATED**  
**STATEMENT OF FINANCIAL POSITION**

June 30, 2005

**ASSETS**

**Current Assets:**

Cash \$ 697,193

**Capital Assets**, net of accumulated depreciation of \$22,360 239,125

Total assets \$ 936,318

**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

Accounts payable \$ 792

Payroll and related benefits payable 12,910

Deferred revenue 668,838

Total current liabilities 682,540

**Net Assets:**

**Unrestricted net assets:**

Undesignated 14,653

Designated for capital assets 239,125

Total net assets 253,778

Total liabilities and net assets \$ 936,318

The accompanying notes are an integral part of these financial statements.

**SUMMIT ACADEMY, INCORPORATED**  
**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2005

**Unrestricted Net Assets**

**Revenues and Support:**

Federal	\$ 665,228
State	1,406,256
Contributions	31,072
Interest	1,849
School fees and other revenue	5,000
Total revenues and support	2,109,405

**Expenses:**

**Program Services (School):**

Salaries	900,016
Employee benefits	249,894
Building rent and maintenance	416,475
Supplies and materials	139,896
Professional and technical	41,139
Equipment	25,094
Depreciation	22,358
Other	14,734

Total program services 1,809,606

**Supporting Services:**

Management and general	46,956
Total expenses	1,856,562

**Change in Net Assets** 252,843

**Net Assets at Beginning of Year** 935

**Net Assets at End of Year** \$ 253,778

The accompanying notes are an integral part of these financial statements.

**SUMMIT ACADEMY, INCORPORATED**  
**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2005

**Cash Flows from Operating Activities:**

Change in net assets	\$ 252,843
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	22,358
Donated capital assets	(22,000)
Increase (decrease) in operating liabilities:	
Accounts payable	(283)
Payroll and related benefits payable	12,910
Deferred revenue	554,956
Total adjustments	567,941
Net cash provided by operating activities	820,784

**Cash Flows from Investing Activities:**

Purchases of capital assets	(239,483)
<b>Net Change in Cash</b>	581,301
<b>Cash at Beginning of Year</b>	115,892
<b>Cash at End of Year</b>	<u>\$ 697,193</u>

Supplemental Information:

Summit Academy, Incorporated, paid no interest or income taxes for the year ended  
June 30, 2005.

The accompanying notes are an integral part of these financial statements.

## **SUMMIT ACADEMY, INCORPORATED**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 1. Summary of Significant Accounting Policies**

Organization and Activities – Summit Academy, Incorporated (the Academy) was incorporated on October 24, 2003, and is operated as a nonprofit organization involved in elementary education. Summit Academy, Incorporated operates one charter school in Draper, Utah, from kindergarten through sixth grade. These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Capital Assets – The Academy's capital assets consist of purchased and donated equipment. Donations of equipment are recorded as contributions at their estimated fair value at the date of donation. Equipment valued at \$1,000 or more with a useful life greater than one year is capitalized and depreciated, using straight-line depreciation, over five to ten years.

Donated Services – No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the Academy with specific programs, administration, and Board assignments.

Financial Statement Presentation – The Academy reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Revenue Recognition – The principal source of operating funds for the Academy is derived from federal, state, and local funds. The Academy receives state and local funding based on the number of students enrolled. Certain funds are received on a reimbursement basis and, accordingly, revenues are recognized when qualifying expenses have been incurred and all other grant requirements have been met. Unspent restricted funds are recorded as deferred revenue at year end.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Expenses – Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any specific function, but provide for the overall support and direction of the Academy.

## SUMMIT ACADEMY, INCORPORATED

### NOTES TO FINANCIAL STATEMENTS

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#### Note 2. Cash

Cash is composed of checking and money market deposits. At June 30, 2005, the Academy's book balance of cash accounts totaled \$697,193 and the bank balance was \$786,442, \$100,000 of which was covered by federal depository insurance.

#### Note 3. Commitments

During the year ended June 30, 2005, the Academy entered into a twenty-year operating lease agreement for its facilities. Lease payments for the year ended June 30, 2005 totaled \$355,755. The lease will expire in August 2024. Future minimum lease payments are as follows for the years ending June 30:

<u>June 30,</u>	<u>Minimum Lease Payments</u>
2006	\$ 404,597
2007	422,597
2008	424,097
2009	424,097
2010	424,097
Thereafter	6,361,452
Total	<u>\$ 8,460,936</u>

#### Note 4. Retirement Plans

**Defined Benefit Plan** – The Academy contributes to the State and School Noncontributory Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Plan members in the State and School Noncontributory Retirement System are required to contribute 13.38% of the annual covered salary of eligible employees. The Academy's contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Utah State Retirement Board.



**SUMMIT ACADEMY, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 4.    Retirement Plans (Continued)**

The Academy's contributions to the Noncontributory Retirement System for the year ended June 30, 2005 were \$95,130. The contributions were equal to the required contributions for this year.

Defined Contribution Plan – The Academy participates in a deferred compensation plan – under Internal Revenue Code Section 401(k) – to supplement retirement benefits accrued by participants in the Systems. During the year ended June 30, 2005, Academy contributions totaled \$10,665. Employees can, and did, make additional contributions totaling \$8,030. The 401(k) plan funds are fully vested to the participants at the time of deposit. Plan assets are held by the Utah Retirement Systems.

**REPORTS IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133**

**Year Ended June 30, 2005**

**SUMMIT ACADEMY, INCORPORATED**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2005

Grantor/Program Title	CFDA Number	Receivable (Deferral) 6/30/2004	Received	Expended	Receivable (Deferral) 6/30/2005
<b>U.S. Department of Education:</b>					
Passed through the Utah Department of Education:					
Charter Schools	84.282	\$ 113,882	\$ 350,729	\$ 437,397	\$ 27,214
Credit Enhancement for Charter School Facilities	84.354	-	227,831	227,831	-
		<u>\$ 113,882</u>	<u>\$ 578,560</u>	<u>\$ 665,228</u>	<u>\$ 27,214</u>

The accompanying notes are an integral part of this schedule.

**SUMMIT ACADEMY, INCORPORATED**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**Note A.    General**

The schedule of expenditures of federal awards presents the activity of all federal award programs of Summit Academy, Incorporated (the Academy). All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other government agencies are included on the schedule. The schedule reports the federal awards expended on the accrual basis of accounting.



**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance With Government Auditing Standards**

Board of Directors  
Summit Academy, Incorporated

We have audited the financial statements of Summit Academy, Incorporated as of and for the year ended June 30, 2005, and have issued our report thereon dated July 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Summit Academy, Incorporated's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Summit Academy, Incorporated in a separate letter dated July 12, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Summit Academy, Incorporated's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance that we have reported to management of Summit Academy, Incorporated in a separate letter dated July 12, 2005.

This report is intended solely for the information and use of the Governing Board, management, and federal and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified users.

*Squire & Company, PC*

July 12, 2005



Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133

Board of Directors  
Summit Academy, Incorporated

**Compliance**

We have audited the compliance of Summit Academy, Incorporated (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of the major federal programs for the year ended June 30, 2005. Summit Academy, Incorporated's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Summit Academy, Incorporated's management. Our responsibility is to express an opinion on Summit Academy, Incorporated's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Summit Academy, Incorporated's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Summit Academy, Incorporated's compliance with those requirements.

In our opinion, Summit Academy, Incorporated complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of Summit Academy, Incorporated is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Summit Academy, Incorporated's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Agui & Company, PC*

July 12, 2005

**SUMMIT ACADEMY, INCORPORATED**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2005

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This is a first year auditee.



**SUMMIT ACADEMY, INCORPORATED**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2005

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I. Summary of auditor's results:

*Financial Statements:*

Type of auditor's report issued: unqualified

Internal control over financial reporting:

-Material weakness(es) identified?      \_\_\_ yes      X no

-Reportable condition(s) identified that are not considered to be material weaknesses?  
   \_\_\_ yes      X none reported

Noncompliance material to financial statements noted?  
   \_\_\_ yes      X no

*Federal Awards:*

Internal control over major programs:

-Material weakness(es) identified?      \_\_\_ yes      X no

-Reportable condition(s) identified that are not considered to be material weakness(es)?  
   \_\_\_ yes      X none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?      \_\_\_ yes      X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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84.282

Charter Schools

Dollar threshold used to distinguish between type A and type B programs:      \$ 300,000

Auditee qualified as low-risk auditee?      \_\_\_ yes      X no

II. Financial statement findings:

No matters were reported.

III. Federal award findings and questioned costs:

No matters were reported.

**ADDITIONAL REPORTS**

Year Ended June 30, 2005



Independent Auditor's Report on Legal Compliance  
in Accordance with the *State of Utah*  
*Legal Compliance Audit Guide*

Board of Directors  
Summit Academy, Incorporated

We have audited the financial statements of Summit Academy, Incorporated (the Academy) (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated July 12, 2005. As part of our audit, we have audited the Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to its major state assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2005. The Academy received the following major state assistance program from the State of Utah (passed through the State Office of Education):

Minimum School Program

The management of the Academy is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Summit Academy, Incorporated complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance program for the year ended June 30, 2005.

*Squire & Company, PC*

July 12, 2005



## Letter to Management

Board of Directors  
Summit Academy, Incorporated

In planning and performing our audit of the financial statements of Summit Academy, Incorporated for the year ended June 30, 2005, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated July 12, 2005, on the financial statements of the Academy. Also, reportable conditions and material internal control weaknesses, if any, are included in our report dated July 12, 2005, in accordance with *Government Auditing Standards* and the *State of Utah Legal Compliance Audit Guide*.

### *Separation of Duties:*

Although the small size of the Academy's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

One of the most critical areas of separation is cash. The Office Administrator currently handles all incoming mail; however, bank statements and canceled checks are not being reviewed, and deposit slips are not being filled out for cash receipts before they are turned over to the Business Administrator who is responsible for writing checks, posting activity, preparing deposit slips and reconciling the monthly bank statements. The result is the danger that errors could be made and not detected. We recommend that the Office Administrator continue to open the mail, in addition should also prepare the deposit slip for all cash receipts. The Office Administrator should forward the monthly bank statement and cancelled checks to an appropriate individual, who should review them before turning them over to the Business Administrator to prepare the bank reconciliations. These simple steps would not require the addition of any new employees or add significant time to those involved.

### *Views of Responsible Officials:*

Currently, the Office Administrator opens all mail including bank statements. The Office Administrator also prepares copies of deposit material to be kept on file as proof of deposit. Management will instruct the Office Administrator to complete the deposit slip in addition to preparing proof of deposit materials in accordance with our auditor's suggestions. In addition, management will request that the Office Administrator give such statements to the Director for review and approval. The Director will then pass these documents on to the Business Administrator for reconciliation.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Academy's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We appreciated the assistance of Academy personnel during the audit.

*Agui & Company, PC*

July 12, 2005